

Yachting **Financial Solutions**

France

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Your Financial Plan

A quick guide to Personal Financial Planning, specifically for professional yacht crew. Adapted from a series of six articles written by Clive Evans, founder and chairman of Yachting Financial Solutions Ltd. for "Dockwalk" magazine during 2008.



Your Financial Plan – Why?

So, as long as you are travelling the world, working hard, earning well, do you really need a financial plan?

You could just save what you have left, couldn't you? Somehow? Think about it for a second, when your boat leaves port, it has a journey plan. Have you got a plan for you and your money?

You're a yachtsman/woman aged 25-30, earning say EUR 50,000 a year. If you work continuously, without any form of pay rise [or inflation] you will earn between EUR 750,000 and EUR 1,000,000 over the next 15-20 years. But if we assume

an inflationary increase of say 3 % p.a., the figures leap to; EUR 975,844 and EUR 1,383,824. If we assume 5% p.a. they become EUR 1,132,874 and EUR 1,735,962.

This doesn't allow for any career advance or promotion, it assumes that, in real terms, you remain at the EUR 50,000 pay level! So many [most?] of you out there are, in fact, potential millionaires. The real test of success is of course, not a question of how much you will earn over the next 10-20 years: But how much you keep for yourself.

Anyone can spend the lot!

We find that very few Yachtsmen/women leave yachting and do nothing (retire?) but instead go on to the next busy phase of their lives, where they are working specifically for their own goals, and dreams, not just for the money!

The key to this is financial independence, in real terms, having enough money to do whatever you want to do. Ask yourself: "When do I want to achieve financial independence and Where do I want to enjoy it?" As a yachtsman you have the ability to save and invest a much greater proportion of your income over a short period of time, than your counterparts in the "onshore world".

A function of the complete absence of daily living costs, and little, if any, taxation on income. We find that many of our clients can save anywhere between EUR 1500 and EUR 7500 a month, often well over half their income.

This unique ability gives most yachtsmen, including you, to create real financial independence and wealth over a relatively short time period. In the "onshore" world, paying taxes, mortgages/rent, housekeeping etc. you would need earnings of around EUR 600,000 to sustain savings of EUR 60,000 a year. As a yachtsman you can achieve this at a much lower income level, but clearly earning this amount of real income dictates that you plan your finances very carefully!

Have you considered also the responsibilities you undertake every day?

As Yacht Captains and crew you are responsible for highly complex pieces of engineering, which cost many millions of dollars to buy and run. Individuals with this level of responsibility usually plan their finances very carefully!

Above all: **Financial planning should be FUN.** By setting and working to meaningful goals, you can create a plan, which really can make your dreams come true.

The earlier you start the easier to reach those goals...

If you want a million in your future, it can be achieved, but you must plan for it! We believe: "No-one plans to fail... most simply fail to plan!"

Your Financial Plan

How to get Started

So now you know that a financial plan makes sense, but where do you start, **it can sound a bit intimidating.**

In fact, it's very simple, providing you don't confuse the planning with the execution of the plan. Confused? Don't be! This only arises because the media, many institutions (and indeed many calling themselves financial planners) approach everything from a product driven point of view.

Statements like "FPI in the Isle of Man provide the best pension plans for expatriates" are possibly accurate, but is

this what you actually need? We are frequently asked on the telephone or via email, "I have USD 50,000, what should I do with it?" Would you call a Doctor who knows nothing about your health and ask which medicines would work best for you? The emphasis here concentrates on the treatment not the patient! The solution is to forget (for the time being) about the product, and indeed the money. **The emphasis must be the most important part of the plan, YOU!**

The **most effective** way of planning for your future is to identify your financial goals and then plan towards them.

Ask yourself: Where am I now? Where do I want to be & when? What's the best way to get from here to there?

The two most frequent future goals that we hear from our yachting clients are:

- Purchase of shore based property for long-term residence/ bolt hole, (not to be confused with shorter-term property for investment purposes).
- Provision of "Core Income" (not necessarily "retirement") to cover daily expenses.

Financially speaking, the first goal is the creation of a capital lump sum to enable this property to be purchased outright (or mortgage cleared) in the future.

The second goal is a further capital lump sum, which will provide income from investment returns, leaving the capital intact for the long term.

Most of our clients' aim point is between 5 and 15 years, or at latest around age 50. This suggests a natural age limit at which to re-consider your involvement in the stresses imposed by modern professional yachting!

Goals clearly must be increased by inflation each year to the horizon (we normally use 5% p.a.) so that the final figures are in "tomorrow's" terms.

So, a property costing EUR 250,000 today will cost EUR 407,334 in ten year's time, if you require a "core income" of EUR 30,000 today you are going to need \$48,8666 in ten years time!

Once these figures are established, it's fairly simple to work out how much has to be saved on a regular basis (assuming an average investment return based on past performance) to get there.

If there is some capital available to give you a head start, **then so much the better!**

In planning terms: Where are you now? Where do you want to be? What are the factors working against you? What are the factors working for you?

If this sounds very familiar to you, it should, it's a journey/ voyage plan! Using these principles we will have established just how much you have to save to complete your plan in say:

five, ten or fifteen years, or anywhere in between. NOW we can look at the vehicles that we might use, depending on the speed (investment return), time line, or your initial savings level. (The plan will evolve, will change as we move through it) Life is a journey, money is just the fuel in the tank that enables you to get to where you want to be!

Financial planning is life planning!

Your Financial Plan

Where to start

The best thing you can do with your money is to use it to get to where you want to be.

The most effective way of planning for your future is to identify your long-term financial goals and then plan towards them.

Key questions: Where are you now? Where do you want to be and when? What's the best way for you to get from here to there?

Key issues: Where are you going to live when you stop yachting? What are you going to live on?

Using this process; then quantifying the answers in money terms, it's possible to calculate how to achieve your goals, just like planning a voyage!

Now decide which vehicles to use to get there, in other words, how and where to invest. Take a look around the media and you will find a bewildering array of financial products and opinion, enough to confuse even the most technically minded. The majority of these are designed for the domestic market, for Brits in the UK, Aussies in Australia etc., not specifically for working expatriates like you!

We find most yachtsmen prefer the flexibility in offshore products designed specifically for working expatriates.

Why? You might assume this is because of tax-free growth and confidentiality, a feature of offshore structures, but actually it is because you will be planning ahead for an event that may not happen exactly as you think it will today.

As a world cruising yachtsman you have stopped being an Australian in Australia (Brit in the UK etc.) you have become a "citizen of the world", and until you return to Australia OR UK (if indeed you DO) your priority must be to accumulate wealth in a "tax neutral" environment as possible.

The tax issue (if there is one) will then be determined by the taxation applying wherever and whenever you choose. Yachtsmen, have a fantastic opportunity to do this, and should plan accordingly. However:

No plan = no wealth = no taxation = no problem!

Most of our clients choose NOT to repatriate their capital when they move onto the next phase of their lives, but leave it in a tax neutral environment and use it from a distance.

Your life will change over time and with it your plans! You must make a plan that can easily change with you. Think back 5-10 years, are you now where you thought you would be?

Offshore structures have flexibility to stop, start, increase and decrease contributions, and to accept different currencies as they are built for working expatriates.

Offshore bank accounts are greatly misunderstood, they are not used for tax-free growth and confidentiality. Their real value in yacht-crews finances is to provide a seamless international banking service in the three major currencies (USD, GBP and EUR) used in yachting. Offshore banks provide cash withdrawals (from any currency account) worldwide via plastic card, wire transfers in any currency and, are familiar with dealing with working expatriates.

This simple structure will be the doorway to an effective financial plan.

Once in motion, review your plan at least annually, to ensure that you reach your destination. The plan will need to be adapted as and when your goals change!

Flexibility and choice are the key issues! As your plan evolves, think about:

- What could go wrong? Have you made some form of contingency plan in the case of sickness, disability or death?

- Are you about to reach the end of stage one of your plan, and now need to plan embarkation on stage two? (e.g. you've created your Million, so time to look ahead to enjoying it!)

Life is a journey; money is just the fuel in the tank that enables you to get to where you want to be! No-one plans to fail... most simply fail to plan!

What is a journey, but a series of destinations?

Your Financial Plan

What could go wrong?

When constructing your plan, there will always be discussion on investment mix **and especially the underlying risk factors.**

When constructing your plan, there will always be discussion on investment mix, and especially the underlying risk factors, property vs. stock markets etc.

The other risk factor to plan for, ignored by many, is if anything happened to you. Should disaster strike, will you (and if you have one – your family survive financially, whatever happens to the stock/property markets?

- When was the last time you reviewed your life assurance cover?
- Does it include critical illness benefit, meaning that it will pay out the full amount in the event of you not dying, but being diagnosed with cancer, heart attack or stroke?
- If you are in a partnership, is your partner also covered?
- How would you be able to work if anything happened to them?
- Have you reviewed your medical insurance cover?
- Will it pay your medical expenses wherever you are, on or off the boat, in or out of work, at work or at play?

You think it can't happen to you?

In an average year in the UK alone over 150,000 men will have their first heart attack – over 50% will still be alive one year later. Almost 250,000 people are diagnosed as having some form of cancer every year – nearly 40% of these sufferers will survive for at least five years; and at least 120,000 men and women will suffer a stroke every year – 70% of them will still be alive one year later. For men aged 30 the possibility of suffering a critical illness before 65 is 1.5 times greater than the probability of dying. For women the probability is twice as great.

If it happens to you, and it clearly will to some, what can you do to solve the financial problem?

- Life Assurance can pay a lump sum on death, which could be used to clear a loan, mortgage etc.

- Critical Illness Assurance can pay a lump sum on diagnosis of a critical illness (Cancer, Heart Attack, Stroke, Kidney Failure, etc, including loss of sight/hearing, and total and permanent disability).
- Either could be used to clear a loan or mortgage, or be invested to provide income for your dependants. You aren't going to be able to provide any further income if you're dead or critically ill!

We all know someone who has been through this, as well as the obvious stress, was there enough money to keep everything going? What would you want to do if you were given less than three years to live? Do you know how much money would you need? If anything happened to you, how much money would your family need to carry on? Money can't buy your health or your life back, but it will ensure that things can continue.

The amount is something you need to work on with your advisor and your partner, USD 250,000 is a good start point.

Contingency plans for a couple must not just cover the major income earner but recognise that if a mother dies or gets sick, who is going to look after the children?

The monthly cost for USD 250,000 life and terminal illness cover for a couple aged 35 and 30 starts at under USD 85 (25-year term). Peace of mind for less than USD 3 per day!

- Rates for life assurance and critical illness are determined by your age and fitness at the outset:
- Once you start, the rate you pay is fixed, for as long as you have it.
- The older/less fit you are at outset, the more you pay!
- Buy it now, it will NEVER be cheaper!

You don't hesitate to insure your car/possessions, don't your life and lifestyle deserve as much?

If you had the goose that laid the golden eggs, which would you insure: the goose or the eggs?

A Financial Plan in action

How's yours looking?

Here's a real plan, including the brief following a 90 minute initial meeting in Antigua, and the conclusions from the ensuing report.

- Jack (34) and Jill (31) run a 30m charter yacht with five crew, Caribbean/Mediterranean.
 - They have been yachting for over five years and expect this to continue for the foreseeable future, both understand the instability of employment in the industry.
 - Jack is UK nationality, Jill Dutch, neither subject to any tax regime so effectively "fiscally nomad"
 - Joint salary EUR 102,000 p.a. (EUR 8,500 per month)
 - Property in UK, equity value of EUR 50,000, let and self-financing.
 - Offshore EUR/GBP bank accounts allocated to cash cushion requirements, UK accounts to service rental property etc.
- Their two goals were:**
- Creation of a further EUR 425,00 (in today's terms, assuming 5% inflation) for further property (and a boat!) purchase in the future.
 - Core income (independent of any other source) EUR 30,000 p.a (EUR 2,500 p.m.) in today's terms (assuming 5% inflation).
 - Time frame, 5 to 15 years.
 - Investment risk: pragmatic: 3 out of 5 aggressive.
 - Final location, France/Mediterranean Europe but nothing set in stone!

Here's the analysis, used in our report/recommendations & subsequent meetings/conference calls over the next three or four months.

Core Income

Core Income: You wish to be able to make a real choice of lifestyle in the next five-ten-fifteen years and have indicated a target income (in real terms) of EUR 30,000 p.a. (assuming 5% inflation)

5 years

- The equivalent future income in 5 years (in real terms assuming 5% p.a. inflation) will be EUR 38,288 p.a.
- To produce this income (assuming 10%p.a. investment yield) will require a capital sum in 5 years of EUR 382,884.
- Your current EUR 50,000 capital (property equity) will stand at EUR 76,778 in 5 years (assuming 10% p.a. investment yield)
- This will leave a shortfall in capital required of EUR 306,106
- The investment contributions required over 5 years, (assuming 10% p.a. investment return) to cover this shortfall in capital are EUR 4661 p.m., or EUR 4298 p.m. (indexed at 5% p.a.)

10 years

- The equivalent future income in 10 years (in real terms assuming 5% p.a. inflation) will be EUR 48,867 p.a.
- To produce this income (assuming 10%p.a. investment yield) will require a capital sum in 10 years of EUR 488,668.

- Your current EUR 50,000 capital (property equity) will stand at EUR 123,652 in 10 years (assuming 10% p.a. investment yield)
- This will leave a shortfall in capital required of EUR 365,017
- The investment contributions required over 10 years, (assuming 10% p.a. investment return) to cover this shortfall in capital are EUR 2020 p.m., or EUR 1684 p.m. (indexed at 5% p.a.)

15 years

- The equivalent future income in 15 years (in real terms assuming 5% p.a. inflation) will be EUR 62,368 p.a.
- To produce this income (assuming 10%p.a. investment yield) will require a capital sum in 15 years of EUR 623,679.
- Your current EUR 50,000 capital (property equity) will stand at EUR 199,143 in 15 years (assuming 10% p.a. investment yield)
- This will leave a shortfall in capital required of EUR 424,536
- The investment contributions required over 15 years, (assuming 10% p.a. investment return) to cover this shortfall in capital are EUR 1160 p.m., or EUR 885 p.m. (indexed at 5% p.a.)

A Financial Plan in action cont...

How's yours looking?

Property/Boat

You have also indicated an additional capital requirement over the same time frames, of EUR 425,000 (in today's terms) for property/boat purchase (or repayment of mortgage) (using the same parameters (5% inflation and 10 % investment return)

5 years

The capital requirement in year 5 will be EUR 542,420
This will require an additional monthly investment of EUR 6419 (indexed at 5% p.a.) over 5 years.

10 years

The capital requirement in year 10 will be EUR 692,280
This will require an additional monthly investment of EUR 2838 (indexed at 5% p.a.) over 10 years.

15 years

The capital requirement in year 15 will be EUR 883,545
This will require an additional monthly investment of EUR 1665 (indexed at 5% p.a.) over 15 years.

Overview

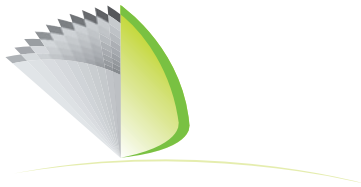
- To achieve your goals over 5 years (total EUR 925,304) will require a total monthly investment of EUR 10,717 (indexed at 5%).
- To achieve your goals over 10 years (total EUR 1,178,498) will require a total monthly investment of EUR 4,522 (indexed at 5%).
- To achieve your goals over 15 years (total EUR 1,507,224) will require a total monthly investment of EUR 2,550 (indexed at 5%).

Discussion points

- The goals are now in "real time" these are the real amounts needed, both income and property value are conservative in today's terms.
- Flexible timelines make it easy to determine a realistic "start point", effective annual review allows timelines and the savings levels to adjust as incomes and goals change.
- Yacht crew can save a large proportion of their income, after discussion we established an initial savings level of EUR 4,500 per month.
- The plan itself was started at an April 2008 meeting in Antibes, we have just conducted Jack and Jill's first annual review via Skype (they are cruising S. America).

Jack and Jill's plan is now well under way with a current new capital base of over EUR 65,000.

When will you start yours?



Yachting **Financial Solutions**

Yachting Financial Solutions Global Hub

Galerie du Port **tel** +33 (0)4 93 34 36 00
Rue Lacan **skype** yfs.france
06600 Antibes **email** info@yfsol.com
France **web** www.yfsol.com